

EXHIBIT 42



U.S. National Science Foundation

i Important information regarding OMB's Supplementary Information for Federal Agency Implementation of 2 CFR 200 (August 15, 2024)



Negotiated Indirect Cost Rate Agreements (NICRAs)...

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This page outlines important information regarding the U.S. National Science Foundation's indirect cost rate policies.

Implementation of standard 15% indirect cost rate

NSF is updating its policy regarding the reimbursement of indirect costs in federally funded financial assistance.

[Read the policy.](#)



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What are indirect costs?

Indirect costs are those costs which are not readily identifiable with a particular cost objective (e.g., direct organizational activity or project),

but nevertheless are necessary for the general operation of an organization.

Examples of indirect costs include the salary and related expenses of individuals working in accounting, personnel, purchasing functions, rent, depreciation and utilities.

Organizations generally charge indirect costs to federal awards by developing and applying an indirect cost rate, which is used consistently across an organization's awards.

In order to recover indirect costs related to federal awards, most organizations must negotiate an indirect cost rate with the federal agency that provides the preponderance of funding to that organization — in the case of colleges and universities, this is usually the Department of Health and Human Services or the Office of Naval Research.

Indirect cost recovery on NSF awards

Because indirect cost recovery can be limited on NSF awards and could require post-award adjustments, awardees should ensure they understand the limitations relating to indirect cost recovery. These limitations will be specified in the NSF award letter or the negotiated indirect cost rate agreement, or NICRA. These limitations include:

- Type of rate.
- Percentage rate.
- Application base.

Type of rate

Important indirect cost rate categories are detailed below. **Note:** Due to limitations of funds provided under assistance awards, grants and cooperative agreements, additional funds will not be provided to cover increases in indirect costs, regardless of the type of rate used.

Provisional rate

A provisional indirect cost rate is a temporary rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs, pending the establishment of a final rate for the period.

Awardees with provisional rates are required to submit a final indirect cost proposal to their cognizant federal agency for rate negotiation within **six months** of the close of each fiscal year.

Billings and charges to federal grants and contracts must be adjusted if the final rate varies from the provisional rate. If the final rate is greater than the provisional rate and there are no funds to cover the additional indirect costs, the organization may not recover **all** indirect costs. Conversely, if the final rate is less than the provisional rate, the organization will be required to pay back the difference to the funding agency.

Predetermined rate

A predetermined indirect cost rate is a fixed rate established for a future fiscal period, based on the actual costs from a representative prior period.

Because predetermined rates are not subject to adjustment, the rate will not be subject to change during the fiscal period(s) for which the rate is in effect.

However, the rate may change throughout the life of the grant award if a new rate is negotiated (a grant award's period of performance typically spans multiple fiscal periods).

Application base

The federal government in general, and NSF specifically, does not permit indirect costs to be recovered on certain types of costs. Commonly excluded costs include:

- Equipment and capital expenditures.
- The portion of subawards that exceed \$50,000 (per subaward, regardless of period).
- Participant support costs.

Awardees must have a detailed understanding of the terms and conditions related to the indirect cost rate or award specific rates to correctly calculate indirect cost recovery charges and any potential post-award adjustments.

Information for organizations without negotiated indirect cost rate agreements

Organizations without negotiated indirect cost rate agreements can either use a *de minimis* indirect cost rate or can submit an indirect cost rate proposal.

De minimis rate approach

For awardees that have never received a negotiated indirect cost rate agreement or do not hold a current NICRA, [2 CFR 200.414\(f\)](#) allows the use of an indirect cost rate of **15% of the project's modified total direct costs** (MTDC). Pass-through organizations may also apply this rate.

If this *de minimis* approach is chosen, the 15% rate must be applied consistently across all an organization's federal awards until the organization chooses to negotiate an indirect cost rate.

Indirect cost rate proposal

NSF negotiates formal negotiated indirect cost rate agreements, or NICRAs, for ~100 organizations. These organizations are required to regularly (typically annually) submit proposals to update their indirect cost rates. NSF does not negotiate indirect cost rates for organizations that are not direct recipients of NSF funding — such as subrecipients — or for foreign organizations.

NSF's Cost Analysis and Pre-Award Branch is responsible for negotiating and issuing indirect cost rates for NSF's cognizant awardees. Based on various information available (e.g., historical cost information and the level of funding being requested), the branch negotiates the funding of indirect costs, typically as a rate.

In rare circumstances, NSF may decline to negotiate an indirect cost rate and instead recommend an award-specific amount.

[Indirect cost rate proposal submission procedures](#)

Click on the following headings to learn more about negotiating an indirect cost rate with NSF:

Overview

Once NSF's Cost Analysis and Pre-Award Branch receives and accepts an awardee's indirect cost rate proposal, it verifies that the proposal complies with the applicable federal cost principles. NSF staff may contact the awardee if additional information is needed to resolve issues identified during the review.

After the review and negotiation is finalized, NSF sends a letter detailing the results of the negotiation, also known as a NICRA, to be signed by the awardee. Once the awardee signs and returns the rate agreement, the proposal is closed.

If the awardee and NSF are unable to reach an agreement on an indirect cost rate, disallowed indirect cost pool expenses, or the appropriate indirect cost rate base of allocation, a unilateral rate agreement may be issued by NSF. If the awardee still disagrees and does not sign the rate agreement with NSF, then the appeal procedures should be invoked within 30 days of issuance of the unilateral rate agreement (see [PAPPG XII](#)) or the right of appeal may be lost and the agreement is determined to be in effect.

Roles

NSF's Cost Analysis and Pre-Award Branch negotiates indirect cost rates for the organizations for which NSF has rate cognizance.

NSF awardees have the following responsibilities related to the indirect cost rate proposal review process:

- Ensure removal of any types of cost previously determined to be unallowable either by a grants or contracts officer or

under previous indirect cost rate negotiations.

- Reconciliation of total expenses included in the indirect cost rate proposal to financial statement total expenses and explaining any reconciling items from the indirect cost pool or direct cost base.
- Ensure unallowable costs are not included in the indirect cost pools; unallowable costs may need to be included in the direct cost base.
- Respond to NSF and NSF contractor inquiries.
- Provide requested supporting documentation to facilitate the proposal reviews.
- Negotiate rates as responsible stewards of federal funds.
- Promptly review, sign and return rate agreements to NSF.

Review timeframe

Organizations for which NSF is the cognizant agency are required to submit indirect cost rate proposals **within six months** after the close of each fiscal year during which the awardee has federal award funding, unless other written arrangements are made.

NSF ensures that the proposal is promptly reviewed and, if accepted, that a rate is negotiated and the subsequent NICRA is sent to the awardee for signature.

Topics covered by the review

NSF reviews indirect cost rate proposals to ensure that the organization complies with the applicable federal requirements.

NSF reviews the following when organizations submit an indirect cost rate proposal for the first time:

- Organizational profile, which provides an understanding of the basic structure of the organization.
- Cost policy statement, which establishes a clear understanding between the organization and the federal government as to what costs will be charged directly and what costs will be charged indirectly.
- Indirect cost rate proposal preparation policies and procedures, which describe how the organization prepares its annual indirect cost rate proposal.

NSF reviews the following items each time an organization submits its subsequent annual indirect cost rate proposals:

- Cover letter indicating the requested period(s) covered by the rate(s), the type of rate(s), the allocation base, etc.
- Any changes to the organizational profile, cost policy statement, or indirect cost rate proposal preparation policies and procedures.
- Financial reports for the year under review, such as audited financial statements, Single Audit Reports, or completed federal tax returns.
- Indirect cost rate proposal, detailing indirect expenses by function and cost category, fund distribution of the direct cost base by function and cost category, and including a reconciliation between the proposal and the financial statements for the applicable fiscal years; all differences must be explained.
- Allocation of salaries and wages, including a schedule of positions, functions and annual salaries for the people who charge time to an indirect cost function.

- Statement of employee benefits, including a schedule showing the actual costs of applicable employee fringe benefit expenses.
- Identification and description of unusual factors that affect the proposed rates, any memoranda of understanding, or any advance agreements that may affect the proposed rate(s).
- Listing of all grants and contracts that were active during the fiscal year, including total dollar amount, period of performance, and indirect cost limitations.
- Completed lobbying certificate, which verifies that the organization does not include lobbying costs in their indirect costs.
- Completed certificate of indirect costs, signed by an organization representative who has the authority to contractually bind the organization.